

CENTRAL INTELLIGENCE AGENCY

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27 April 1949

INTELLIGENCE MEMORANDUM NO. 150

**SUBJECT: Attempts to Procure Strategic Items Indirectly from US
by the USSR and Satellites**

1. Although the pattern of US trade policy with respect to the Soviet Bloc remains in some respects obscure, and although the machinery of control in Western countries has not been finally elaborated, Soviet and Satellite attempts, both direct and indirect, to procure strategic items from the US and other Western sources are of continuing interest. There have been numerous indications in the past that the Eastern Bloc is badly in need of certain strategic materials such as ball bearings, machine tools, rubber, and various minerals. Moreover, fairly frequent examples have come to light of attempts by Eastern Bloc countries, or by agents or others acting on behalf of such countries, to obtain these materials from the US and other sources by resorting to various indirect techniques such as import through third countries, use of dummy firms, bribery, and misrepresentation. It is the purpose of this memorandum, and will be that of others on the same subject which will appear from time to time, to note some of the more significant of these attempts at indirect procurement of strategic materials.

2. The enclosures herewith deal with indirect procurement of:

- A. Machine Tools
- B. Graphite Electrodes
- C. Abrasives
- D. Certain Minerals
- E. Rubber Chemicals

Note: This memorandum has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force.

Document No. 001

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ENCLOSURE A

MACHINE TOOLS

1. Heavy-duty Machine Tools.

It has been reported in the last month that the Hungarian Heavy Industries Foreign Trade Company (NIK) has been trying to place orders for the following US machine tools: (Prices listed are retail value.)

Gleason Hypoid Generator No.16 \$ 18,435.00

Equipments:

1 No 10 Spiral Bevel and Hypoid Cutter Sharpener

1 No 17 Combination Tester and Lapping Machine

1 Cutter Truing Device

1 Cutter Anglo Testing Device

Total \$ 13,971.46

Manufacturer: Gleason Works Ltd., Rochester, New York, USA

Gleason Hypoid Generator No.26 \$ 26,500.00

Equipments:

1 No 27 Hypoid Tester \$ 8,100.00

1 No 13 Hypoid Cutter Sharpener \$ 10,500.00

Manufacturer: Gleason Works Ltd., Rochester, New York, USA

Gleason Bevel Gear Tester No.27 \$ 8,350.00

Manufacturer: Gleason Works Ltd., Rochester, New York, USA

Michigan Relieving Lathe Type 1712 \$ 12,716.00

Manufacturer: Michigan Tool Company, Detroit, Michigan

(The Gleason Hypoid Gear Generators are specialized machines mainly used for the production of hypoid bevel gears, such as are used for the manufacture of tanks and trucks. Gleason is the only company known to be making this type of equipment. The bevel gears made on these machines are used on differentials of tanks or trucks of medium to heavy sizes.)

Bullard Vertical Turret Lathe 42" Man-Au-Trol \$ 43,366.00
Bullard Vertical Turret Lathe 64" Cut-Master \$ 42,701.00

Manufacturer: The Bullard Company, Bridgeport,
Connecticut, USA

(The Bullard Vertical Turret Lathes are used for roughing out large gear blanks or tank sprockets but are also generally useful for the turning and boring of work ranging up to 42" and 64" in diameter respectively.)

Cincinnati Double housing planer-type milling
machine 54" X 48" X 14" \$ 72,257.00

Manufacturer: Cincinnati Planer Company, Oakley,
Ohio, USA

(The Cincinnati planer-type milling machine has been used for the milling of groups of engine blocks, either gas or diesel type. It would be used in a shop of fairly high production of large castings or forgings, ranging in size up to the capacity of the machine which is 54" X 48" X 14". This machine usually operates with a top spindle and two side spindles, each equipped with a large milling cutter so that the work to be processed is milled on three sides simultaneously.)

Of this original list, it is interesting to note that the majority of the tools were the type used in the production of motors and bodies for armored trucks or tanks as well as some specialized tool-room machines for the making of dies and perishable tooling (cutting tools). Because of the large sizes of most of the machines, it is felt likely that they would be used in the production of medium to heavy tanks. It might be useful to note that most of the US producers of medium tanks included identical equipment in their production lines.

On 22 March 1949, [REDACTED] stated that he had received a 25X1X4 letter from the Central Board of Hungarian Heavy Industries explaining that Hungarian representatives are making efforts, which they believe will be successful, to procure the US machines listed above in Milan, Italy. [REDACTED] claims that quick action would be necessary to block this transaction.

25X1X4

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2. Precision Hole Grinders.

25X1X4

25X1X4

25X1X4

[REDACTED] in February 1948 received from its agent in Prague an order for four precision hole grinder machines for use in grinding ball and roller bearing races. These grinders were to be shipped to Czechoslovakia. The US company refused to quote on this order. One year later in February 1949 [REDACTED]

25X1X4

[REDACTED] received an identical order from its agent in Milan, Italy. This time the order was placed by F. Hendel, Addis Ababa, with the request that shipment be made to Ethiopia. Hendel did not reveal for whom the grinders were intended, except that they were to be shipped to him in Addis Ababa. (Ethiopia has no use whatsoever for ball bearing machine tools.) The US firm has quoted a price of \$65,337.00 (US) on this order but has not yet decided whether or not to accept it.

This order for machines for precision hole grinders is of particular interest when considered in connection with long-standing Czech plans for building a large ball-bearing factory in Slovakia. It is reported that the completion of this factory has long been delayed because of the inability of the Czechs to secure the necessary machine tools from the United States. Early in 1948, while negotiations were continuing with US machine tool manufacturers, the Czechs implied that although they could procure such specialized equipment elsewhere, they preferred to give the business to US firms, and would wait until such shipment was possible. The order from Ethiopia indicates that the Czechs are determined to secure by illicit means what they have failed to obtain through regular channels. It should be noted that a Czech trade mission visited Ethiopia in December 1948. Although the objectives of this mission have not been ascertained, the presence of the Czechs in Ethiopia tends to support the conclusion that F. Hendel of Addis Ababa is acting as a Czech agent.

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ENCLOSURE B

GRAPHITE ELECTRODES *

The Hungarian firm of Barsony Kornel has attempted to purchase graphite electrodes in sizes 300 and 200 mm diameter through the Danish firm Vaerktojsfabriken Nordan. The order was to be placed with Acheson Graphite Division, National Carbide Company, Inc., 30 E. 42nd Street, New York. The Hungarian company was to see to it that payment was made in the US and transshipment was to be made through Samson Transport, Ltd., Copenhagen, to Budapest. In the present case, neither an import license nor foreign exchange would have been required by the Danish agent; hence Danish authorities would not have had an opportunity to intervene. [REDACTED]

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25X1X6

* Graphite electrodes - in varying sizes and compositions are used in the electrochemical and electrometallurgical industries and as brushes for electric motors. Those of a special quality and variety are used by the Atomic Energy Commission.

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ENCLOSURE C

ABRASIVES

1. Numerous spurious requests from Western countries for quotations on abrasives and abrasive wheels received by US suppliers suggest a net deficit of these materials in Eastern Bloc countries. Because the quantities and qualities involved in some of the requests were not in accordance with the normal requirements of the inquiring country, they were investigated and found actually to have originated in the USSR, Czechoslovakia, Yugoslavia, and probably other Eastern Bloc countries. The country of destination most frequently specified in the inquiries has been Switzerland, but the Netherlands, Belgium, and Uruguay have also been mentioned. Information has become available on inquiries received by US firms and their British and Canadian subsidiaries only. It is believed, however, that the same and similar spurious inquiries must also have been received in other Western countries producing abrasives in quantities sufficient for export. (The largest producers are England, Canada, France, Germany, and Norway. Smaller producers include Sweden, Italy, Austria, and Switzerland.)

2. In the Eastern Bloc the principal producers are the USSR and Czechoslovakia. Hungary also produces part of its requirements. Czechoslovakia is the leading Eastern-Bloc exporter to World markets of all kinds of abrasive products, but it is dependent on the US and Norway for silicon carbide, of which it requires about 3,000 tons each year. The USSR has a large number of abrasive plants and is capable of supplying almost all its requirements. The principal Soviet shortage is silicon carbide and manufactures thereof, but contracts with Norway provide for a supply of silicon carbide. Czechoslovakia also supplies abrasives to the USSR, as well as to satellite countries.

3. The following examples illustrate the type of inquiries received in which a Western area was falsely stated to be the destination:

a. 15,000 tons of abrasive grain, consisting of 5,000 tons each of electro carborundum, white electro carbide and green electro carbide. Numerous inquiries were received starting in September 1948 and on through to 7 December. Destination was usually stated to be the Netherlands or Switzerland. The inquiry was traced back

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to Dijkers & Co., Hengelo, Netherlands, but it was probably also sent out by other European firms. Reports indicate that the inquiry actually originated in Yugoslavia. Since Yugoslavia cannot use this quantity of abrasive, it is believed that the final destination was to be the USSR. The inquiry was received through many US exporters, and through the following foreign inquirers:

W. B. Rosche & Co., Ltd., Montreal

M. G. W. Rekke, Johannesburg

b. 1,500 tons raw abrasives. Inquiry received through a New York exporter with connections in Yugoslavia on 21 December 1948. Inquirer stated destination was to be Yugoslavia. This quantity is far in excess of Yugoslav needs.

c. 300 tons silicon carbide grain for export to Montevideo. Inquiry was received 17 December. Uruguay can use only about fifty tons a year. Destination may have been Argentina, but it might well also be destined for the Eastern Bloc.

d. 520 tons silicon carbide grain for export to Switzerland. The inquiry was received during March 1949 and was traced back to Teccno Import in Moscow. Inquiry was received from several exporters in New York and several importers in Europe, including:

Trudel & Co., Zurich

Heinrich Reimann & Co., Zurich

British Graphitized Metals Co., London

Duesberg-Bossan Fils, Belgium

e. 50,000 abrasive wheels, approximate value \$500,000, for export to Switzerland. Inquiry received 17 March 1949, through an exporter in New York having close ties with Switzerland. This quantity of wheels is believed to be far greater than Swiss requirements. The exporter states that these wheels are destined for export to neighboring Western European countries, but it is believed they will be sold to the USSR and its Satellites, particularly Czechoslovakia.

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f. 1,000 tons of 95% - 98% silicon carbide, fineness 0-1/0-2 mm to be used for manufacture of ceramics. Inquiry received 11 February 1949, from the New York buying agent for Pancosma Ltd., Geneva, Switzerland. Prices were requested on CIF Hamburg terms. It was determined that this inquiry originated in Czechoslovakia. It calls for a large amount of silicon carbide for heat-resistant use, probably for the manufacture of refractories such as crucibles or zinc retorts. (By comparison, large plants in the US use about 100 tons per month.)

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ENCLOSURE D

MINERALS

1. Beryl.

It is reported that the total production of beryl mined at Kristiansand, Norway, is sold to the Norwegian Mining Company which in turn ships it to Czechoslovakia. [It is believed that this firm is associated with the Scandinavian Raw Material Company (Skandinavisk Raamaterial Co.) of Copenhagen. Both companies are said also to be associated with a New York firm, the identity of which is unknown at this time.] The Norwegian Mining Company was refused an export license by the Norwegian Government for sale of beryl to Czechoslovakia. In order to evade the restrictions, however, the company is said to mix the beryl with feldspar before shipment, the minerals being so similar in appearance that the presence of one in a shipment of the other is not easy to detect.

2. Copper.

The Administration of Soviet Property in Austria (USIA) is reported to have sold the Swiss firm of Siber Hegner & Co., A.G. 10,000 tons of scrap on condition that it procure 5,000 tons of cathode copper for USIA to be delivered to Mitterbacher und Wagner, Vienna. The first delivery is said to have been 1,000 tons of Mexican copper. It is also reported that a new contract was signed calling for an additional shipment of 5,000 tons for which Siber Hegner & Co. will receive scrap.

3. Tin.

Reports continue to come in regarding Soviet attempts to purchase tin and tungsten in Siam. Persons connected with the Soviet Legation in Siam are said to be arranging for the purchase of tin concentrates, while a number of Soviet experts have reportedly visited the tin-producing area of Phuket and expressed an interest in the present output and productive capacity of the region. Several small Chinese firms have been approached with a request to act as agents for the purchase of tin and tungsten concentrates.

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Purchases are to be made in US dollars clandestinely because if the transactions were made openly, the seller would be obliged to relinquish 50 percent of the foreign exchange to the Bank of Siam.

4. Antimony and Tungsten.

The "front" for sale of Siamese antimony, tungsten, and other non-ferrous metals to the USSR is said to be a Chinese exporter ("Chang") who recently arrived from Singapore where he is said to have procured rubber for Soviet interests. It is believed that this exporter arranges shipment of Siamese products to Hong Kong or Shanghai where they are transshipped to other ports, probably including Vladivostok.

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ENCLOSURE E

RUBBER CHEMICALS

Attempts, both successful and unsuccessful, by the USSR and Satellites to purchase rubber chemicals and carbon black (all 1-B rating) have been observed. Various methods have been employed in efforts to procure these critical materials, of which the following are the most important:

- a. Shipment to a non-ECA country such as Canada, Mexico, or Cuba, and illegal re-export to a Soviet Bloc country. Recently a \$150,000 cargo of carbon black illegally re-exported from Mexico was seized by the US Customs at a Southern port.
- b. Shipment to an ECA country (including the Bizone of Germany) for alleged consumption in that country. These instances frequently involve larger quantities of materials than the normal demands of the country, and falsification of declaration of consignees or end users.
- c. Purchase of desired product in a non-ECA country (e.g., Canada).
- d. Purchase from a US subsidiary in an ECA country, of products manufactured in the US plant of the parent company.
- e. Direct purchases in the US by Satellite countries in excess of normal requirements.

Rubber chemicals include anti-oxidants and vulcanization accelerators, all of which are complex synthetic organic chemical compounds. These and carbon black are not only essential for the manufacture of tires and other rubber goods necessary for military operations, but are in short supply in the USSR and Satellite countries. The US is by far the largest producer and exporter of these products. Inability of the USSR to procure them directly or indirectly from the US would seriously retard Soviet production of essential military items.

Although some of the inquiries for anti-oxidants and accelerators are no doubt duplications and in the majority of instances the business

was refused by the US dealers or manufacturers who were approached, the total known quantities which have been reported would be sufficient to process over 100,000 tons of natural or synthetic rubber. Indirect sales to Soviet Bloc countries would enable the USSR to defeat US efforts to deny strategic war materials to that group.

Following is a summary list of inquiries received for rubber chemicals and carbon black of US manufacture since 1 September 1948, and which are known or believed to originate from Eastern European countries.

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